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ABSTRACT

A review of the literature reveals that publishers have suggested that magazines would cost twice as much and newspapers five times as much if they were not supported by advertising revenues. However, recent research indicates that this is not true. Although statistics regarding magazine publication are easier to obtain than those regarding newspaper publication, it does not appear that an increase in advertising revenues has resulted in substantially lower prices for consumers. A portion of ad revenues is used to pay for the additional paper and printing, for additional postage for heavier magazines, and for sales staff and the distribution of free copies to current and potential advertisers. The real costs of carrying ads in newspapers is also much higher than is suggested by the claim that newspapers would be more expensive without advertising. Furthermore, it has been shown that consumers are the ultimate source of all revenues, because when manufacturers and retailers pay for advertisements, they simply pass the incurred cost to consumers. (DF)

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MAGAZINE AND NEWSPAPER PRICES:

THE EFFECT OF ADVERTISING REVENUE

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The American Association of Advertising Agencies is currently running a series of advertisements to "help improve the image of advertising."[1] Because ads in the series address several issues affecting the welfare of consumers, they should be analyzed and evaluated by students of mass communications.

This paper deals with an issue raised by one of those ads, which was recently published in The New York Times.[2] Full page in size, the ad boldly proclaims in what is sometimes called "Second Coming" type,

THIS AD HAS ALREADY SAVED YOU MONEY.

And the copy elucidates:

> If you paid for this newspaper, we have something in common.
> We paid for it, too.
> In fact, every advertiser you see in these pages paid handsomely for the privilege of being here.
> And what we paid went toward the cost of producing the newspaper. Which made it a lot cheaper for you to buy.
> How much cheaper? Well, if you took all the advertising away, the average newspaper would cost you about five times as much.
> And offer you about half as much.

A similar ad has been run in several magazines, making a more modest claim: "if you took all the advertising away, the average magazine would cost you twice as much." (See Figure 1.)

That notion is part of the mythology of advertising, and it has been around for a long time. So far as I am aware, no solid evidence has ever been offered in its support. Evidence that would enable one to investigate it is scanty, because of the well-known reluctance of publishers to reveal "trade secrets." As Bagdikian has observed, even the federal government is unable to extract financial data from newspaper publishers.[3]

But a small amount of evidence has gradually become available, enough to permit a tentative analysis. It is the purpose of this paper to present such an analysis, primarily in the hope

of stimulating further investigation by other scholars in the field.

LITERATURE REVIEW

As economic enterprises, magazines and newspapers have much in common. Both media have high fixed costs, the costs incurred before the printing of copies is begun; and both incur low average variable cost (AVC) or marginal cost (MC) as additional copies are printed. (See paragraph #2 on page 11, below.)

However, evidence regarding magazines is easier to obtain and analyze. One can compare the prices of magazines that do, and do not, carry advertising-- something that cannot be done with newspapers. And one can compare prices of magazines with small, moderate, and large amounts of advertising. But how does one obtain a sample of newspapers with ten percent advertising?

For those reasons, research on the relation of advertising to magazine prices provides a starting point; it may suggest to us something about the effect of advertising on newspaper prices, as well.

A simple comparison was made several years ago of 45 magazines for which data could be obtained regarding the amount of editorial and advertising content carried during 1979.[4] The magazines were first sorted, by the amount of advertising published, expressed as a percent of total space, into quintiles of nine. According to the myth, it would be expected that the quintile of nine magazines that carried the largest percentage of advertising would be lowest in price to consumers.

Not so. In fact, those nine magazines were, on average, the highest in price. (See Figure 2.)

When the magazines were re-sorted into quintiles by circulation, however, an inverse relationship between circulation and price became apparent. With one exception (the quintile with the next-to-largest circulation), each increase in circulation was accompanied by a decline in both the cover and subscription prices per page of editorial matter. (See Figure 3.)

Inspection of the deviant quintile revealed that it included three newsweeklies (Time, Newsweek and Sports Illustrated), the prices of which were a great deal higher than those of the other six magazines in the quintile. In fact, they were the highest prices in the entire sample except for three of the smallest-circulation magazines. It is reasonable to suppose that with their larger-than-usual staffs, such magazines are expensive to produce. And perhaps they have an especially inelastic demand. (See Table 1.)

When the prices of the magazines in that quintile were averaged with the three newsweeklies excluded, the result resembled the hyperbolic shape of an AFC (average fixed cost) curve. (See Figure 4.)

(As Figure 5 shows, removing those magazines made no essential difference in the relation of prices to amount of advertising, since they were not all in the same quintile.)

The explanation is not difficult to discover. The fixed costs involved in preparing to print a magazine (e.g., salaries, rent, payments to contributors) are quite high; the variable (or marginal) cost of printing copies is quite low and relatively constant. Thus a publisher's AC (average cost) curve-- the sum of his AFC and AVC curves-- looks very much like an AFC curve. This can be seen in Figure 6, which shows the various cost curves for Mad Magazine. To the extent that cost influences price, magazine prices will tend to decrease more-or-less hyperbolically with increases in circulation.

A follow-up study involved a content analysis of a sample of 215 consumer magazines.[5] Of those, 23 carried no paid advertising at all, while the other 192 carried various amounts of advertising up to about 75 percent of the total space. CPP (Cover Price per Page of editorial matter) and SPP (Subscription Price per Page of editorial matter) were calculated as had been done with the previous study of 45 magazines, and prices of the two groups (with and without ads) were averaged.

Both the CPP and the SPP of the 23 magazines that received no advertising revenue were lower than the prices of the 192 magazines supposedly "subsidized" by advertising revenue. (See Table 2.)

Multiple regressions were then run for both CPP and SPP on the sample of 45 magazines, on the sample of 215 magazines, and on the ad-carrying magazines. Here is the regression equation for the CPP of the sub-sample of ad-carrying magazines:

$$CPP = .826 - .888(LogC) - .015(PP) + .007(PCA)$$

$R^2 = .5367$ R^2 excluding PCA = .5278

df = 3, 177 F = 68.3 p .001

where CPP = cover price, in cents, per page of editorial matter

LogC = $\log_{10}$ of circulation

PP = number of editorial pages

PCA = percentage of total pages carrying advertising

The final expression in the equation, preceded by a plus sign, indicates that the prices of magazines in the sample rise, rather than fall, as the amount of advertising rises. The other regression equations were similar. Once more, we find that the evidence contradicts the myth that advertising revenues lead to lower magazine prices.

The equation above clearly indicates that among the factors considered, circulation has the largest influence on the prices consumers pay per page for magazines they buy. As pointed out earlier, larger circulation magazines have a cost advantage. A kind of "scale economy" (using the term loosely) also accrues to the publisher of a thick, rather than thin, magazine. Some of his fixed costs rise as he adds pages, but others do not.

The three independent variables in the equation account for 53.67 percent of the variation in the prices of the magazines in the sample. (Note that PCA explains very little of that variation). The other 46.33 percent of the variation may be attributed to factors such as differences in the quality of paper used in the magazines, the salaries paid to editors and the prices paid to contributors; and perhaps most important of all, the publishers' estimates of the elasticity of demand for their magazines.

The business manager of a large-circulation magazine who gave permission to be quoted but prefers not to be identified (he remarked that the statement "makes us appear to be as crass as we really are!") said, on the basis of more than 25 years of newspaper and magazine management:

> I have participated in numerous discussions involving magazine cover prices. While we have all heard the old adage that magazines would cost a lot more without advertising, I've never heard the concept voiced in any rate-raising discussions. Nobody ever says, "Gee, we're getting a lot of ads these days, surely we can now lower the cover price."
>
> Instead, we are all thinking, "How much can we get?" More often than not, we simply raise prices until we encounter some adverse reaction, whereupon we come out with a special offer that negates the rate rise that didn't fly. Some publications can get more than others without having their wrists slapped and that is really why, in my opinion, the cover prices vary.

That statement reveals one of the several errors in the 4As' ads-- namely, that magazine and newspaper prices just barely cover costs, so that any reduction in the publisher's ad revenues would force an increase in price. But the typical publisher is not interested in merely covering his costs, he is interested in maximizing his profits. Regardless how much advertising revenue

he obtains, he will charge readers as much as he thinks he can without getting his "wrist slapped."

CHANGING TIMES VS. CONSUMER REPORTS

The opportunity for a "before and after" case study arose in 1980. Changing Times, which had been published for many years without benefit of advertising revenue, announced that with the March 1980 issue it would begin to carry ads. The editor promised his readers that the additional revenue from ads would make possible a "new and improved" magazine with "as much as 40 percent more editorial matter" than before.[6]

Six years have passed since that promise was made, but it has not been kept. In 1979, prior to carrying advertising, the magazine regularly published 51 pages of editorial content and a one-page house ad soliciting subscriptions. During its first year of carrying paid ads, the magazine increased the number of editorial pages to 57.8-- an increase of 13, not 40, percent. During the second year the number of editorial pages declined to approximately 54.1, only six percent more than in pre-advertising days. During 1985, the average number of editorial pages was 54.9, only 7.6 percent more than in 1979.

Meanwhile the cover price has risen from $1.00 to $1.75 and the subscription price from $1.00 to $1.25. The newsstand buyer is now paying about two-thirds more per page than before the magazine became "subsidized" by advertising revenue; subscribers pay about 17 percent more than before. (See Table 3.)

Consumer Reports, on the other hand, has been published for fifty years without advertising support. It is a much more expensive magazine to publish because of the large number of products bought and tested every year. (Changing Times does very little product testing.)

Consumers Union buys all products at retail prices and maintains a staff of about 80 engineers and technicians to conduct the tests, in addition to 25 writers and editors who produce the magazine from the data gathered in the laboratories.[7]

In fact, Consumers Union is outgrowing its facilities and is now conducting a fund drive to raise $10 to $15 million to construct a new physical plant. According to Richard Cross, associate director of CU, "It's going to be all small contributions from our subscribers and supporters."[8]

CU also maintains consumer advocacy offices in Washington, San Francisco and Austin, Texas.

But despite these extraordinary expenses not incurred by most publishers, Consumer Reports is less expensive than Changing Times both on the newsstand and by subscription. That was true

in 1979, when both Consumer Reports and Changing Times carried no ads; and it was still true in 1985, when Changing Times was 41 percent advertising. (These comparisons are based on the "regular" issues of Consumer Reports; the 400-page digest-size annual "Buying Guide Issue" is not included.)

A by-product of my research is the discovery that many people believe Consumer Reports is "subsidized"-- although when asked "By whom?" they have no idea. It is not. Quoting Richard Cross again, "Since we take no advertising in our magazine, Consumer Reports, we have no significant outside support. We do not take money from business sponsored foundations, nor do we have any significant government funding. Circulation represents 98 percent of our revenue."[9]

CU has for some years published paperback books containing consumer information, but has recently taken on new ventures. It publishes Penny Power, a magazine for children, and a newsletter. It also produces "four or five specials every year" for HBO and a column for 400 newspapers; their "costs are covered" by those media.[10]

ON THE VALUE OF ADVERTISEMENTS TO READERS

Some readers may object to the calculation of prices per editorial pages alone, on the grounds that people buy magazines as much for the ads as for the editorial material.

That is true in a few cases. Trade-A-Plane, for example, contains no editorial matter at all. Nevertheless, 181,000 subscribers pay $20 a year to obtain 36 100-page issues. About one-third of them, in fact, pay $120 per year in order to receive the publication by air mail. The same firm publishes Rock and Dirt, a similar publication full of ads for earth-moving equipment. Hemmings Motor News, despite its name, carries about four pages of news and more than 400 pages of automotive ads, but has a circulation of 229,000 at $15.50 per year.[11]

But the ads in those atypical publications are retail and classified ads. In general, the national ads found in consumer magazines contain very little information. Stern, Krugman and Resnik, analyzing 1500 randomly selected ads from 100 consumer magazines, found that the average ad contained only 1.7 items of information. Half the ads contained two items, but only nine percent contained as many as four and only one percent contained five or more.[12] This is in stark contrast with news stories, very few of which, no matter how brief, do not present five or more items of information.

Consequently, consumers place very little economic value on national ads. In a random telephone survey, respondents were asked, about a magazine they buy regularly, whether they would prefer to buy it with or without ads, if both versions were

available at the same price. Only 55 percent said they would prefer the magazine with ads; and two-thirds of those respondents said they would not pay even one cent to obtain the ads; they would accept them only if they were free.[13]

On the other hand, 37 percent said they would prefer to buy the magazine without ads, and 60 percent of that group said they would pay a premium (the median was 10¢) to avoid receiving the ads.

Thus it is appropriate to calculate a magazine's CPP and SPP on the basis of editorial content alone, since that seems to be the only part of the magazine on which most consumers place any monetary value.

EXTENDING THE COMPARISON

The comparison was then extended to include several other "consumer information" type magazines: Consumer Research, Consumers Digest and Consumer Guide.

Consumer Research bears the closest resemblance to Consumer Reports. "The testing [of products] is scientific, objective, and trustworthy".[14] It carries no product advertising but will accept advertising from organizations deemed to serve the public interest. A typical issue in 1985 carried four to five pages of public service ads for organizations such as the American Cancer Society, the American Heart Association and Recordings for the Blind. The ads were published free of charge; the magazine's ad revenue for the year 1985 was zero.[15] The magazine is rather expensive, with a CPP and SPP of 5.25 and 3.94 cents. An obvious (although perhaps not the only) explanation of those high prices is the small circulation-- only 80,000. Fixed costs can't be spread very thin. (See Table 4.)

Consumers Digest bears the least resemblance to Consumer Reports, since the magazine is one-fourth advertising. Although products are discussed and rated, "It is usually opinion; few data are given on how an item was tested or evaluated."[16] Other differences will be noted in a later section of this paper. Despite its being "subsidized" by advertising, Consumers Digest's CPP and SPP are 3.22 and 2.51 cents. Both are higher than the prices of Consumer Reports.

Consumer Guide is really an array of publications that appear 28 to 40 times a year. Some issues are published in standard magazine format with 8 1/2 by 11 inch pages; others are digest size, with pages half that large. Format is determined by the nature of the issue's contents.[17] Some of the standard size issues are pure consumer information, with tightly-packed black and white pages of prose describing and evaluating products, at an average CPP of only 2.13 cents. That is the lowest of any magazine in this study, although it is published by a profit-

seeking firm unprotected by tax-exempt status. Others, such as the June 1985 "Great Cars of the Forties," contain no consumer information in the usual sense; they are printed on glossy stock with four-color illustrations on every page. They are referred to in Table 4 as "nostalgia" issues. More expensive, at 4.27 cents per page, they are being discontinued.[18]

The digest-size issues providing product information were mostly single-topic publications, such as January's "Video Buying Guide" or May's "Used Car Rating Guide." The "Video Buying Guide" was expensive at 9.5 cents per "standard" page (two actual pages); but the remainder were quite inexpensive, averaging only 2.75 cents per standard page-- less than Consumer Reports' CPP.

The first two of a new series of "investment guides" appeared in 1985, at the high price of 10.6 cents per standard page.

Because of the large number and variety of issues per year, there are few subscribers-- mostly libraries. Consequently circulation varies. About 200,000 of the various automobile issues are sold; and about one-half to three-quarters of a million copies of the annual buying guides.

Like Consumer Reports, Consumer Guide is produced by a large staff. The magazine maintains its own testing laboratories and employs 72 editors, each a specialist in some type of product. Twelve, for instance, are automobile specialists.[19]

Consumer Guide does gain some "scale economies" by publishing paperback books based on the same information gathered for articles in the magazine.

WHY AD REVENUES DON'T LEAD TO LOWER PRICES

Although it is true that advertising revenues help pay the cost of producing magazines, what is never mentioned is that advertising also raises the cost of producing a magazine. Advertising revenues are not "found money." This is the most glaring error in the 4As' advertisements.

Most obvious is the cost of buying the additional paper on which the ads are printed, and the increased printing costs. A higher-quality, more expensive paper may be required to properly reproduce four-color ads. (Changing Times had to purchase more expensive paper for its advertising pages.)[20]

Postage costs also rise; the magazine with ads is not only heavier, but the Post Office charges a higher rate for the advertising content than for the editorial content.[21]

Fixed costs are increased, too. Advertising salesmen expect to be paid, provided with offices, equipment, and assistance. They also need to be supplied with information about the magazine's readers, and are often provided with expensively-produced promotional brochures; and they need expense accounts so they may wine and dine advertiser and agency personnel in the city's pricier restaurants.

Another advertising-incurred cost results from the distribution of free copies of the magazine to advertisers (actual and potential) and their agencies. Changing Times distributed an average of 67,752 free copies each month during 1985 and Consumers Digest distributed as many as 104,885-- ten percent as many as were sold.[22]

Changing Times' price for a single-insertion black-and-white page is $18,785. A four-color page is $28,000.[23] The agencies buying the space receive 15 percent of that. If we average the two prices, subtract 15 percent and then multiply by the 37.2 pages of advertising carried in the average 1985 issue, the total advertising revenue per issue is about $740,069. If we divide that by paid circulation, the gross advertising revenue per copy is a mere 50.8 cents. That is only 29 percent of the magazine's cover price. Thus it is clear that even if there were no costs associated with advertising, the publisher of Changing Times could not reduce his price by 50%, as the 4As claims. But ads, we have seen, are not costless. How much of that gross revenue per copy is left after all the advertising-induced bills are paid is known only to the publisher and his accountants. But if we assume that competition among publishers for advertising dollars has any effect on ad rates, it is unreasonable to believe that the net ad revenue can be more than a few cents per copy.

In some cases it may be nothing at all. One publisher wrote to me, in confidence, that "even the IRS agrees we don't net anything from our advertising," but "we're a 64-page magazine and don't think we can print fewer pages and still satisfy readers." That raises an interesting question: Do some magazines actually lose money on ads, but carry them anyway because the loss is smaller than the cost of filling those pages with editorial matter?

Consumers Digest, with a smaller circulation than Changing Times, charges $13,300 for a black-and-white page and $19,950 for a four-color page. With 25.8 advertising pages in the average 1985 issue, the total ad revenue per issue was about $364,652 and the gross ad revenue per copy was only 33 cents--14.8 percent of the cover price. Again it is unlikely that the net ad revenue per copy is more than a few cents.

Based as they are on single-insertion rates, these estimates are probably generous, since most advertisers qualify for frequency discounts. Nevertheless, they show that the "advertising subsidy" is not what it is widely thought to be. They help to

explain why, in general, magazines that carry ads are not lower in price than those that do not.

NEWSPAPER STUDIES

The first study that dealt (in part) with the effects of advertising on newspaper costs and prices was published in the British Economic Journal in 1963.[24] It seems to have attracted little attention among communications scholars in the United States. Using data obtained by the Royal Commission on the Press, W. B. Reddaway was able to arrive at some interesting conclusions.

Reddaway attempted to determine the incremental costs incurred by newspapers associated with the solicitation, preparation, and publication of advertisements. These costs include such items as the higher paper, ink, and printing costs attributable to the carrying of advertising; and the cost of advertising salesmen, their support staff, their space and equipment requirements, and so forth.

Reddaway found that the advertising "surplus"--the ad revenues of publishers in excess of the advertising-incurred costs--was less than one might think. The publisher's gross advertising revenues might amount to millions of pounds, but the net revenue per copy was small. Reddaway concluded, "per copy, the typical popular national daily made a 'surplus' from advertising of about 1/2d (pence) in 1960; on the other hand, the surplus for a quality national daily was about 5d."

> Because the readers of quality papers are typically in command of large amounts of purchasing power (whether their own or their company's), certain types of advertisers are prepared to pay a high rate per copy to get their messages put in front of such readers. There are enough of these advertisers to ensure that there is a large number of column-inches of advertising space in each copy, sold at a high price; on top of this, the proportion of advertising revenue absorbed in costs is smaller for a quality paper than for a popular, because the largest element of the cost is the paper used, and this is virtually the same per square inch in each case-- while the quality paper receives much more for the advertising printed on that square inch.[25]

Further analysis shows that the 1/2d net ad revenue per copy of the popular daily was only 20 percent of its price to readers; the 5d surplus of the quality paper was 125 percent. So the publisher of the popular daily would have had to charge his readers only 20 percent more, in the absence of advertising revenue, not merely to break even but to enjoy the same (probably large) profits as he enjoyed with advertising. The publisher of the quality daily would have had to charge his readers slightly

more than twice as much. Neither is close to the "five times as much" claimed by the 4As ad quoted above.

But even that estimate is higher than it needs to be. The mean circulation of the popular dailies was three million. The quality dailies, with only one-tenth that circulation, enjoyed three-fourths as much profit-- that is, seven and one-half times as much per copy. The conclusion is that they were enjoying extraordinary monopoly profits (because even the popular dailies were profitable) and would not have had to double their circulation prices, in the absence of advertising, to continue in business with profits similar to those of the popular dailies.

For several reasons, the situation in the United States is not precisely comparable.[26] Fortunately, a few years after Reddaway's study, the University of Wisconsin was able to obtain, due to a promise of confidentiality, economic data from a sample of newspapers in that state. Table 5 presents data from from a very small and a very large newspaper, identified only as A and B. Table 6 presents data calculated on the basis of Table 5.

Space limitations forbid a full-blown discussion of all the data-- something the economically-minded reader may enjoy pursuing on his own. But these significant inferences may be drawn:

1. There are great economies rising from large circulation. Note that the publisher of newspaper B is able to produce a 46 page newspaper at a per-copy cost of only 10.3 cents, while publisher A spends 14.5 cents per copy to produce an eight page paper. Newspaper A costs the publisher nine times as much per page as newspaper B. Some of those economies arise from the fact that newspaper B, issued 586 times per year, is obviously a combination paper.

2. Publisher A's average fixed cost (AFC) is 92.7 percent of his total per-copy cost. Printing only 3500 copies of an eight-page paper, he incurs small variable cost. Publisher B's AFC is less: 71.9 percent of total per-copy cost; but that is still extraordinarily high in comparison with the typical manufacturer. Thus newspapers display the characteristics of "natural monopolies," which helps explain the disappearance of competing dailies across the land.

3. The costs attributed to "advertising" by both publishers are quite small in comparison to advertising revenue, but they are pure fiction: they fail to take into account, for example, that two-thirds of the "newsprint, ink, and handling" costs (virtually the only variable costs) are the result of carrying advertising. So, of course, are a share of the "General Administrative" and other fixed costs.

Table 7 presents further analysis of newspapers A and B, derived from mathematical interpretation of the data in Table 5.

The concept of "fully allocated cost" is employed here. As in Reddaway's study, all costs of publishing are assigned to news-editorial or to advertising, as indicated by the percentage of "total output" in each category. Since American newspapers are typically 2/3 advertising and 1/3 news (more precisely, non-advertising matter), 2/3 of all costs except those specifically identified as "news-editorial" and "color comics" are allocated to advertising. This may lead to imprecise conclusions, since the cost of producing one page of advertising may not be exactly the same as the cost of producing one page of non-advertising matter. Or "general administrative" costs may be higher, or lower, for one ad salesperson than for one reporter. But in the absence of data that cannot be obtained, it is the best we can do.

Such an a analysis leads to the following conclusions:

1. The real cost of carrying ads in newspaper A is not $17,000, but $89,628.

2. When that is subtracted from the gross advertising revenue, the net advertising revenue, per copy, is only 3.1 cents. For newspaper B, the real advertising cost is not $546,000, but $4,659,029; and the net revenue per copy is 2.5 cents. In other words, if both publishers abandoned advertising and that decision had no effect on circulation (an important qualification we will consider later), publisher A would need to raise his circulation price by only 3.1 cents and publisher B by 2.5 cents not merely to break even and stay in business, but to realize the same profits they now obtain with advertising. And as Bagdikian has noted, newspaper profits are extraordinarily high.[27]

Now let us approach the analysis from the opposite direction. The fully allocated cost of publishing the newspaper without advertising would include all "news-editorial" plus one-third of all other costs except "advertising." The real cost of of gathering, writing, printing and distributing the "news" paper would be $61,872 for newspaper A and $3,322,471 for newspaper B. Those costs are greater for both newspapers than the revenues they derive from circulation. Therefore we can speak of a news "deficit" (the counterpart of the advertising "surplus") of $24,972 for newspaper A and $655,008 for newspaper B. This indicates that to cover costs (but not to realize the same profit as before), publisher A would have to raise the per-copy price by 2.4 cents and publisher B by 0.8 cents. Those would be a 69 percent increase in price for newspaper A and a 23 percent rise for newpaper B.

That conclusion, despite errors resulting from this "rough and ready" calculation, hardly supports the claim that a newspaper would cost the reader five times as much if it were not supported by advertisers.

Note the difference between the advertising "surplus" of 3.1 cents and the editorial "deficit" of 2.4 cents for newspaper A (and the corresponding "surplus" of 2.5 cents and "deficit" of 0.8 cents for newspaper B). That is an estimate of the profit or "subsidy" the publisher realizes from carrying advertising.

That is to say, publisher A uses 2.4 cents of his 3.1 cent advertising "surplus" to cover the 2.4 cent editorial "deficit," leaving .7 cents per copy, which he places in his bank account. Publisher B has 1.7 cents to place in his.

If those profits-per-copy are multiplied by circulation and by number of issues per year, the annual profits obtained are at variance with the profits shown in Table 7, due to rounding and accumulated small errors resulting therefrom. But they are reasonably close.

A SAMPLE OF ONE

The editor of a chain-owned paper with a circulation of 20,000 wrote, late in 1982, that "advertising support is vital to [this paper] and to our readers, because it permits us to grow while keeping the cost of the newspaper as low as possible. (Revenue from advertising accounts for some 73 percent of our total operating revenue; an ad-free newspaper would cost subscribers hundreds of dollars a year.)"[28]

The expression, "grow while keeping the cost of the newspaper as low as possible" is of course a non sequitur. As we have seen, growth is not incompatible with low cost; in fact, quite the opposite. Average cost declines as circulation increases. Of course, if the editor meant "grow" in the sense of carrying more ads, then his statement is merely a tautology.

The editor was boasting of his paper's success in selling 140,000 inches of ads during the previous month. At the paper's listed ad rate, the gross revenue from those ads was close to $1,000,000. That is a significant amount of revenue to any publisher. But what did it cost the paper to obtain that revenue?

The publisher of that paper told me, a year later, that fixed costs were $3,000 per day and the cost of printing one copy of the paper (average variable cost) was about eight cents. There is no way of knowing how accurate those figures are, but let's see where they lead us.

They tell us that with a circulation of 20,000, his AFC was 15 cents per copy. Adding his AVC of eight cents, we get a total per-copy cost of 23 cents. Carriers bought the paper at 18.33 cents per copy, so that was the publisher's average revenue; and readers paid about 25 cents per copy, depending on the length of their subscription.

Note that even if the publisher continued to print a newspaper that is two-thirds ads but received no revenue for those ads, he would lose only 4.67 cents per copy. Obviously he would not have to raise his price "five times" even under those extremely unlikely circumstances. That loss amounts to only 20 percent of the retail price of the newspaper.

Note something else: Two-thirds of his AVC of eight cents is due to carrying advertising. The AVC of an adless paper (assuming no increase in news content) would be only one-third as much; that is, 2.7 cents. So even if the publisher continued to pay his ad salesmen, but allowed them to sell no ads, his total cost per copy will fall from 23 cents to 17.7 cents.

But that is less than the carriers pay him for the paper! So he would make a profit despite continuing to cover the fixed costs associated with advertising.

There remains the question whether a newspaper without ads attain the same circulation as one with ads. We saw earlier that people place little monetary value on the national ads in magazines; how much do they value the retail and classified ads in newspapers? Would they pay as much for an adless newspaper?

In a yet-unpublished survey of readers of the newspaper being discussed here, the question was asked, "The paper now costs about $1.50 a week. How much do you think it would be worth to you, per week, if it didn't have any ads in it?"

Both the median and the modal answer was that it would be worth just as much, but some said it would be worth less. If the readers' responses may be taken as valid indications of how they would behave, we may infer that an adless newspaper would have smaller circulation revenues-- either lower price or lower circulation-- unless it carried, as editorial matter, the information readers now find in the ads. That, of course would increase editorial costs.

CONCLUSION

The research reported here, though limited in scope, rebuts the 4As' claim that magazines would cost twice as much and newspapers five times as much if they were unsupported by advertising revenues.

More research is needed, of course, especially regarding newspapers-- for which data are extremely difficult to obtain. But with sufficient and interest and effort, and perhaps a bit of luck, someone may be able to obtain them.

One conclusion is certain, however, which follows not from the foregoing analysis but from a fundamental principle of

economics: There is no such thing as a free lunch. Consumers are the ultimate, the real, source of all revenues received by the media, whatever the "apparent" source. The notion that "advertisers" pay for advertisements is on a par with the notion that the "government" pays for weapons and highways. Manufacturers and retailers "tax" consumers to cover the cost of their ads, just as government taxes citizens to pay for guns and concrete.

Consequently "THIS AD HAS NOT SAVED YOU MONEY" if you pay five cents less for your newspaper but a nickel more for your groceries.

Notes

1. AAAA Newsletter February 1985, p. 1

2. The New York Times, March 14, 1986, p. C23.

3. Ben Bagdikian, "The Myth of Newspaper Poverty," Columbia Journalism Review 11:19-25 (March/April 1973).

4. V. Norris, "Consumer Magazine Prices and the Mythical Advertising Subsidy," Journalism Quarterly 59:205-11, 239 (Summer 1982).

5. Ibid.

6. Changing Times 34:4 (March 1980).

7. "Consumer Reports Expands Subscriber Base Via TV Ads," Direct Marketing 47:58-79 (January 1985).

8. Ibid.

9. Ibid.

10. Ibid.

11. Ulrich's International Periodical Directory, 24th ed., (New York: Bowker, 1985). Additional information from the publisher of Trade-A-Plane.

12. Bruce D. Stern, D. Krugman and A. Resnik, "Magazine Advertising: An Analysis of its Information Content," Journal of Advertising Research 21:39-44 (1981).

13. V. Norris, "Consumer Valuation of National Ads," Journalism Quarterly 60:16-21 (Summer 1983).

14. Bill and Linda Katz, Magazines for Libraries, 4th ed., (New York: Bowker, 1982).

15. Martha Dawson, business manager, Consumer Research, telephone conversation, February 1986.

16. Katz, op cit.

17. Estelle Weber, associatge publisher, Consumer Guide, telephone conversation, March 1986

18. Ibid.

19. Ibid.

20. V. Norris, "Magazine Mythology: That the Ads Help Lower the Cover Price," Public Communication Review 1:17-21 (Summer 1982).

21. Publishers are charged a per-piece rate plus a per-pound rate. The per-pound rate is higher for the advertising portion of the magazine than for the non-advertising portion. See U. S. Postal Service, Domestic Mail Manual (Washington, D. C.: Government Printing Office, 1985). (SuDoc Number P1.12/11.Trans. 2

22. Standard Rate and Data Serivce, Consumer Magazines and Agri-Media 67 (November 27, 1985).

23. Ibid.

24. W. B. Reddaway, "The Economics of Newspapers," Economic Journal 73:201-18.

25. Ibid.

26. Cecil King, "An English View of American Newspapers," Editor & Publisher 100:19, 98-100 (April 29, 1967).

27. Bagdikian, op cit.

28. Bill Welch, "Sunday Paper's Doing Just Fine," CentreDaily Times, October 6, 1982, p. A4.

FIGURE 1

THIS AD HAS ALREADY SAVED YOU MONEY.

If you paid for this magazine, we have something in common.

We paid for it, too.

In fact, every advertiser you see in these pages paid handsomely for the privilege of being here.

And what we paid went toward the cost of producing the magazine. Which made it a lot cheaper for you to buy.

How much cheaper? Well, if you took all the advertising away, the average magazine would cost you about twice as much.

And offer you about half as much.

After all, advertising informs you about new products. It helps you make smarter decisions about what to buy. Often it enlightens you. Sometimes it entertains you.

And yes, occasionally it annoys you. But if it does, you can take advantage of one of advertising's nicest features.

You can simply ignore it.

It might hurt our feelings. But we'll still chip in for your magazine.

ADVERTISING.

ANOTHER WORD FOR FREEDOM OF CHOICE.

American Association of Advertising Agencies

BEST COPY AVAILABLE

FIGURE 2

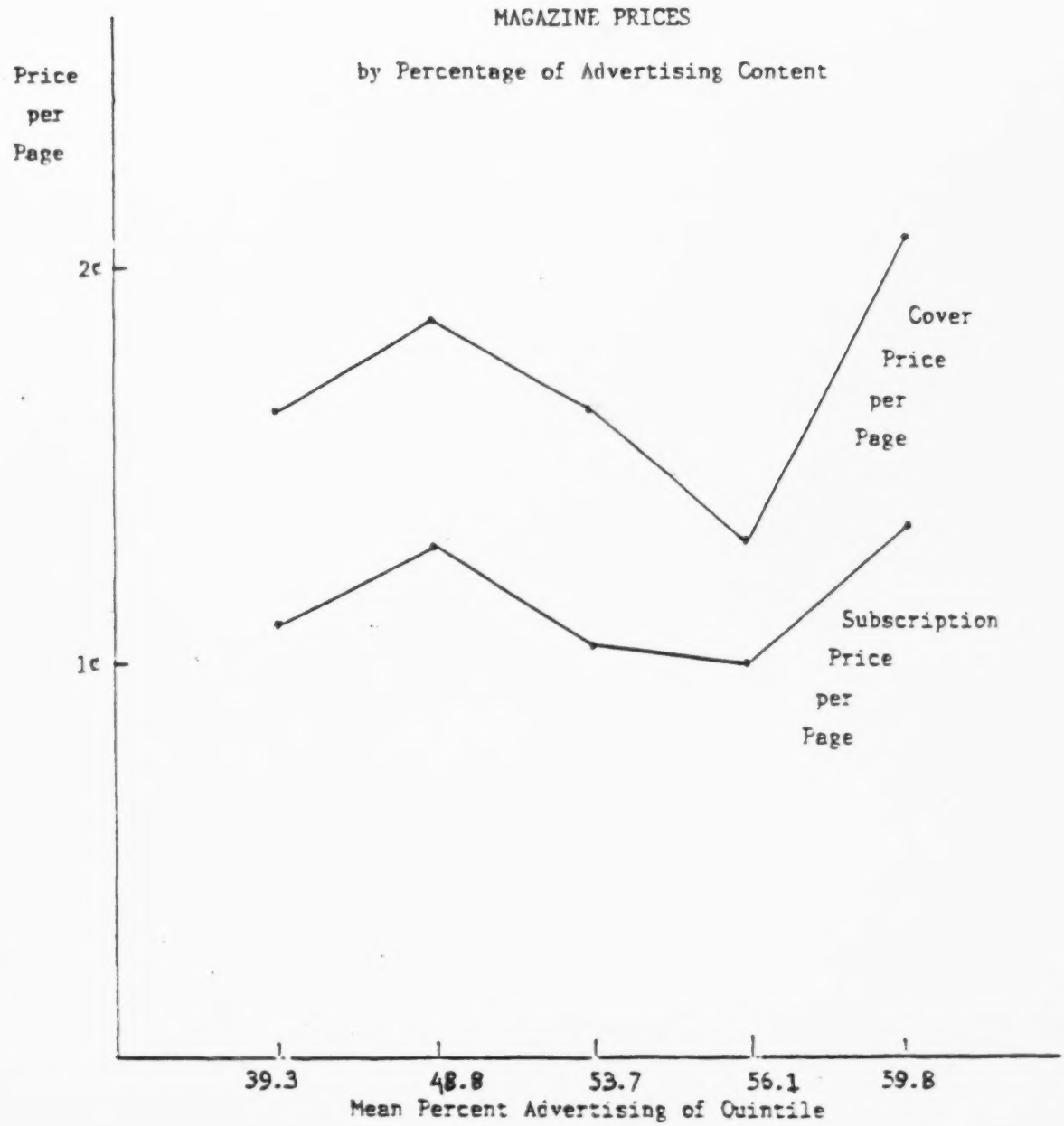

MAGAZINE PRICES
by Percentage of Advertising Content
Price per Page
2¢
1¢
Cover Price per Page
Subscription Price per Page
39.3
48.8
53.7
56.1
59.8
Mean Percent Advertising of Quintile

FIGURE 3

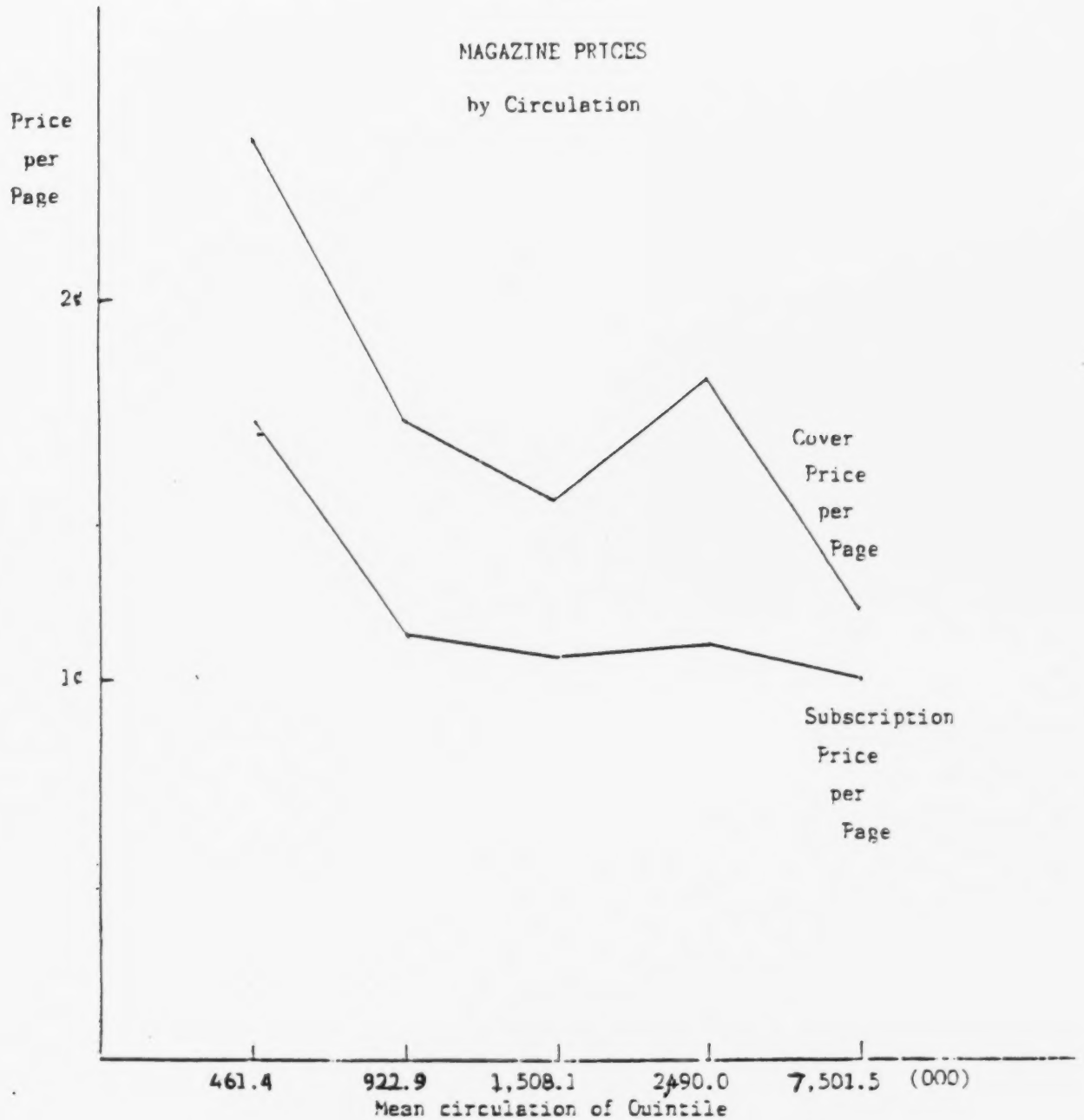

MAGAZINE PRICES
by Circulation
Price per Page
2¢
1¢
Cover Price per Page
Subscription Price per Page
461.4
922.9
1,508.1
2490.0
7,501.5
(000)
Mean circulation of Quintile

FIGURE 4

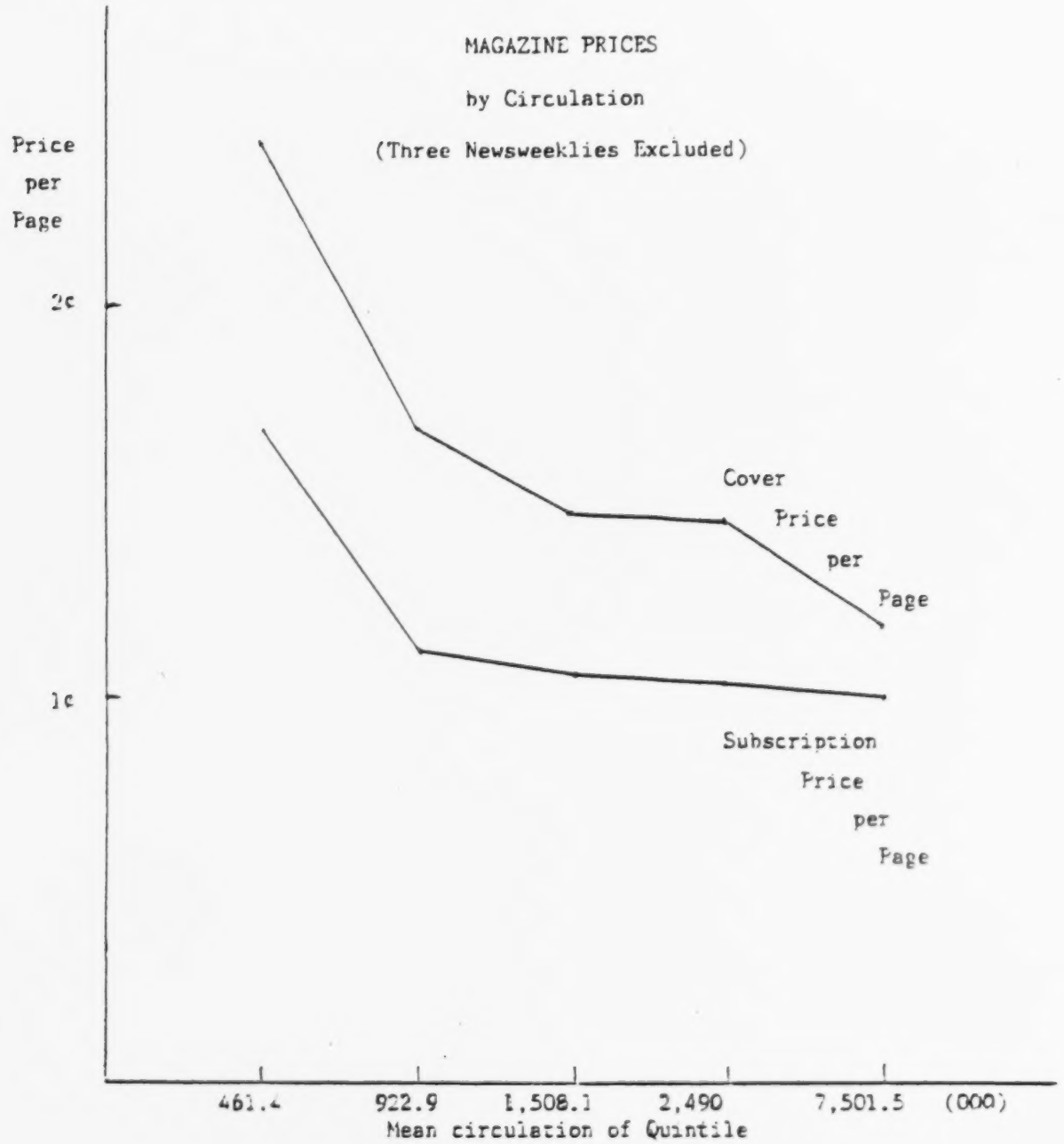

MAGAZINE PRICES
by Circulation
(Three Newsweeklies Excluded)
Price per Page
2¢
1¢
Cover Price per Page
Subscription Price per Page
461.4
922.9
1,508.1
2,490
7,501.5
(000)
Mean circulation of Quintile

FIGURE 5

MAGAZINE PRICES

by Percentage of Advertising Content

(Three Newsweeklies Excluded)

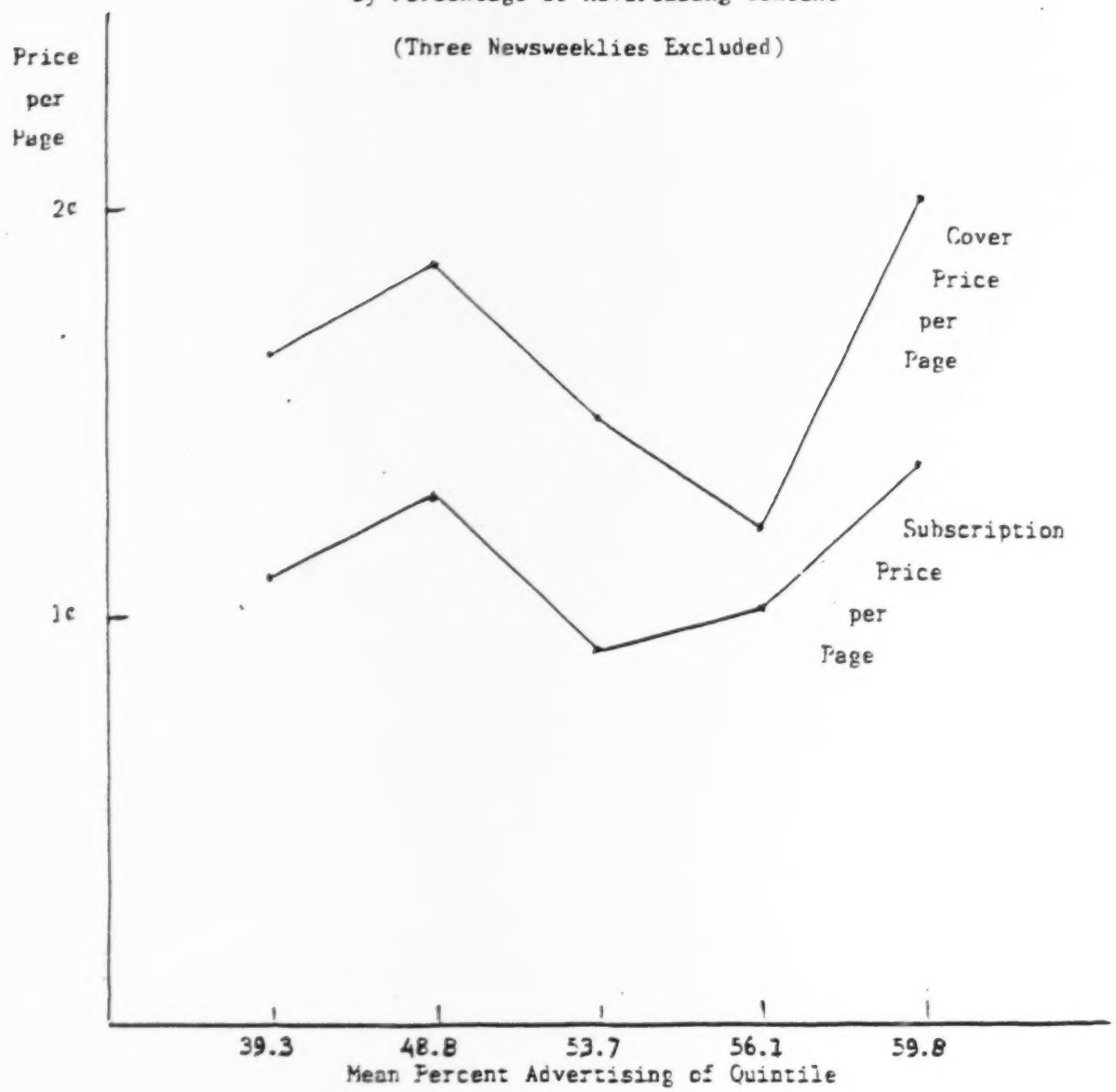
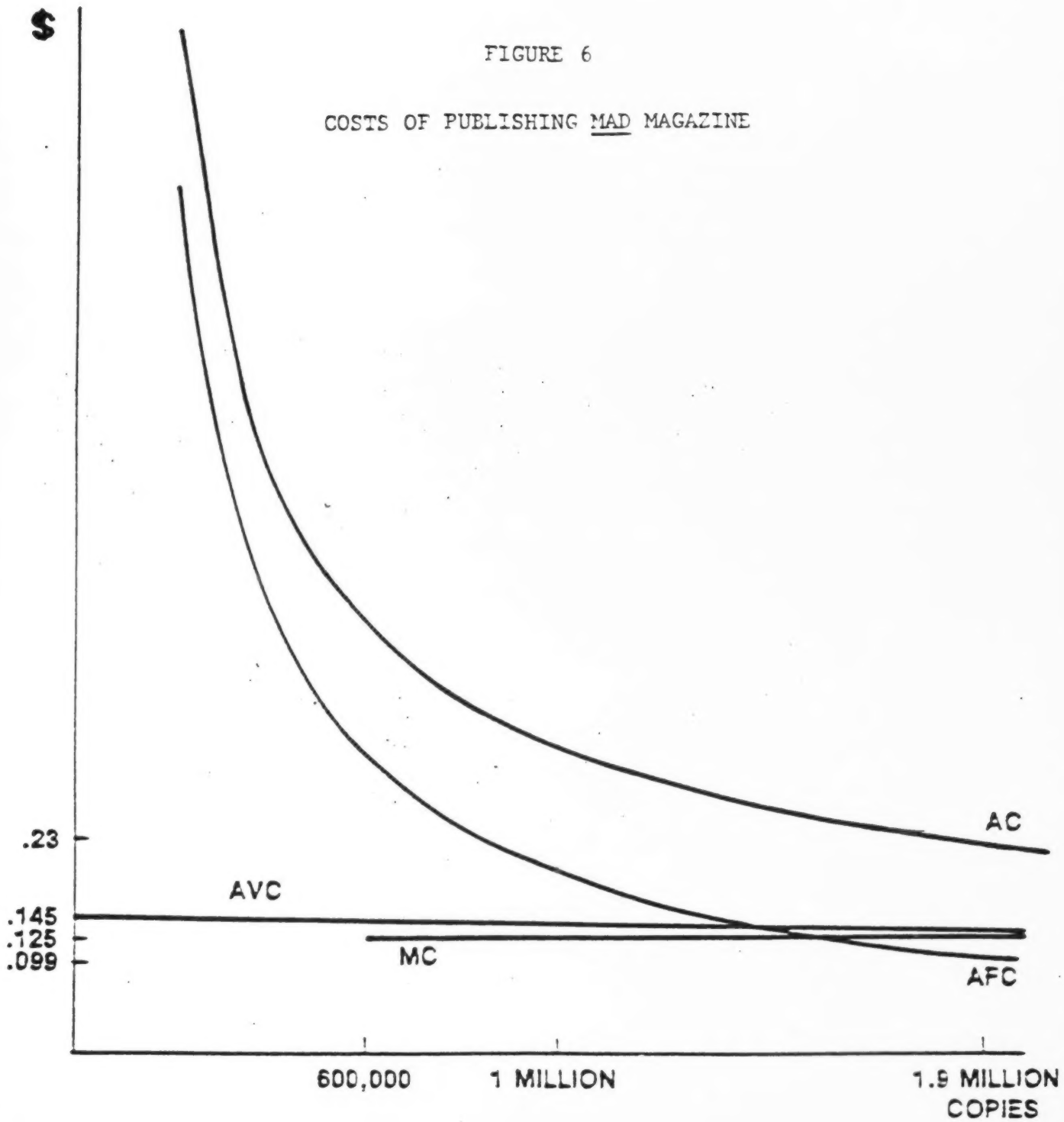


FIGURE 6

COSTS OF PUBLISHING MAD MAGAZINE



Source: Norris, V., "Mad Economics: An Analysis of an Adless Magazine," Journal of Communication 34 (Winter 1984).

TABLE 1

MAGAZINES IN THE FOURTH QUINTILE

Magazine	Circulation	PCA	CPP	SPP
Sports Illustrated	2,283,297	55.5%	2.48¢	1.15¢
Time	4,466,151	59.0	2.47	1.18
Newsweek	2,999,841	54.2	2.44	1.22
U. S. News and W. R.	2,136,189	44.4	1.71	.87
Field and Stream	2,150,600	54.4	1.66	1.10
Popular Science	1,839,595	49.9	1.64	.91
People Weekly	2,355,534	56.9	1.41	1.44
Glamour	1,903,712	57.1	1.16	.64
Cosmopolitan	2,775,116	59.4	1.07	1.25

TABLE 2

MAGAZINE PRICES

(WITH AND WITHOUT ADVERTISING)

Magazines:	N	$\bar{X}$ CPP	S.D.	$\bar{X}$ SPP	S.D.	$\bar{X}$ PP	$\bar{X}$ Circulation
With ads	192	2.795¢	1.19	2.231¢	1.16	61.7	955,617
Without ads	23	2.566	1.24	2.112	.79	50.1	498,926
(BY TYPE OF PUBLISHER)							
Commercial	167	2.771	1.15	2.223	1.11	62.7	972,678
Tax-exempt	39	2.984	1.42	2.321	1.27	54.1	756,676
Government	9	2.131	1.23	1.673	.69	46.8	334,022

TABLE 3

COMPARISON OF PRICES:

CHANGING TIMES VS. CONSUMER REPORTS

Issues	Changing Times		Consumer Reports	
	$\bar{X}$ CPP	$\bar{X}$ SPP	$\bar{X}$ CPP	$\bar{X}$ SPP
All 1979	1.96¢	1.96¢	1.91¢	1.60¢
March 1980 - February 1981	2.16	1.73	2.13	1.70
All 1985	3.19	2.28	3.05	2.25

TABLE 4

PRICES OF CONSUMER INFORMATION MAGAZINES

1985

Magazine	PCA	CPP	SPP	Circulation
Consumer Guide (Large)*	0	2.58¢	---	Varies
Consumer Guide (Small)**	0	2.75	---	Varies
Consumer Reports***	0	3.05	2.25¢	3,768,000
Consumer Research	0	5.25	3.94	80,000
Changing Times	41.3	3.19	2.28	1,456,200
Consumers Digest	25.1	3.22	2.51	1,100,000

* Shopping guide issues only; "nostalgia" issues excluded

** Shopping guide issues only; investment guides excluded.

*** Regular issues only; annual "Buying Guide" issue excluded.

TABLE 5

COSTS AND REVENUES OF TWO MIDWESTERN NEWSPAPERS

	Newspaper A		Newspaper B	
Circulation	3500		132,300	
Issues/year	299		586*	
X pages per issue	8		46	
Annual Costs				
General Admin.	$45,100	(30%)	$1,729,400	(22%)
News-Editorial	26,100	(17%)	1,156,700	(14%)
Advertising	17,000	(11%)	546,100	(7%)
Circulation	10,700	(7%)	937,900	(12%)
Mechanical	41,500	(27%)	1,372,200	(17%)
Newsprint, Ink, and Handling	11,100	(7%)	2,099,200	(26%)
Color Comics	none		140,000	(0.5%)
Total Cost	151,500		7,981,500	
Total cost per copy	.145		.103	
Total cost per page	.018		.002	
Annual Revenues:				
Circulation	36,900	(23%)	2,677,463	(29%)
Advertising	122,300	(76$)	6,560,012	(71%)
Miscellaneous	2,099	(1%)	140,000	(2%)
Total Revenues	161,299		9,286,705	
Profit	9,799		1,305,205	
Profit per copy	.01		.018	
Profit as % of revenue	6.2%		14.9%	

* Combination paper

TABLE 6

COSTS AND REVENUES OF TWO MIDWESTERN NEWSPAPERS, CONTINUED

	Newspaper A		Newspaper B	
Annual				
Variable Cost (Newsprint, Ink and Handling)	$11,100	(7.3%)	$2,239,200	(28.1%)
Fixed Cost (Everything else)	140,400	(92.7%)	5,742,300	(71.9%)

TABLE 7

ADVERTISING "SURPLUS" AND EDITORIAL "DEFICIT"

	Newspaper A	Newspaper B
Advertising Revenue	$122,300	$6,560,012
Advertising Costs (Includes "Advertising," plus 67% of everything else except (News-Editorial" and "Color Comics")	89,628	4,659,029
Advertising "Surplus"	32,672	1,900,983
Advertising "Surplus" per copy	.031	.025
Editorial Costs (Includes "News Editorial" and "Color Comics" plus 33% of everything else except "Advertising")	61,872	3,322,471
Circulation Revenue	36,900	2,667,463
Editorial "Deficit"	24,972	655,008
Editorial "Deficit" per copy	.024	.008
Deficit as percent of price	69%	23%